

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

DOCKETED

APR 04 2014

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IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING TO
INSTALL A WATER LINE FROM THE WELL
ON TIEMAN TO WELL NO. 1 ON TOWERS.

DOCKET NO. W-04254A-12-0204

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING TO
PURCHASE THE WELL NO. 4 SITE AND THE
COMPANY VEHICLE.

DOCKET NO. W-04254A-12-0205

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING FOR AN
8,000-GALLON HYDRO-PNEUMATIC TANK.

DOCKET NO. W-04254A-12-0206

IN THE MATTER OF THE RATE APPLICATION
OF MONTEZUMA RIMROCK WATER
COMPANY, LLC.

DOCKET NO. W-04254A-12-0207

JOHN E. DOUGHERTY,

COMPLAINANT,

V.

DOCKET NO. W-04254A-11-0323

MONTEZUMA RIMROCK WATER COMPANY,
LLC,

RESPONDENT.

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-04254A-08-0361

ORIGINAL

1
2 IN THE MATTER OF THE APPLICATION OF
3 MONTEZUMA RIMROCK WATER COMPANY,
4 LLC FOR APPROVAL OF A FINANCING
APPLICATION.

DOCKET NO. W-04254A-08-0362
**STAFF'S CLARIFYING COMMENTS
TO RECOMMENDED OPINION
AND ORDER**

5
6 Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff") has
7 reviewed the Recommended Opinion and Order ("ROO") filed on March 26, 2014. Staff notes four
8 issues that bear clarification. The first issue is the ordering paragraph on page 161 beginning at line
9 25. Beginning at line 28 and continuing on to page 162, the ordering paragraph states "in this docket,
10 one year after the effective date of this Decision, a report detailing the status..." The ordering
11 paragraph requires monitoring for a full year and then the filing of status report within one year of the
12 effective date of the order. The way the ordering paragraph is stated could be read to mean that the
13 status report must be filed the day immediately following the conclusion of the full year of
14 monitoring. In order to reduce confusion and supply adequate time to prepare the required status
15 report, Staff recommends restating the ordering paragraph to say "in this docket, by May 29, 2015, a
16 report detailing the status..."

17 The second issue relates to the disposition of Allegation IV of Intervenor John Dougherty's
18 Complaint. The discussion of Allegation IV starting at page 124, line 25 of the ROO observes that
19 National Association of Regulatory Utility Commissioners ("NARUC") standards require exclusion
20 from plant in service facilities that are not used and useful. Staff does not dispute that is a correct
21 expression of NARUC requirements in a rate proceeding. However, Staff is concerned that some
22 readings of the ROO's discussion on the subject may prompt an incorrect conclusion that plant
23 should not be included on a utility annual report *until* it is found used and useful. Staff takes this
24 opportunity to inform parties following the docket that Staff expects all utility plant to be included in
25 the plant description, preferably accounted for appropriately, along with the current levels of
26 operating expenses and other pertinent information and that they continue to do so unless the
27 Commission determines that it is not used and useful and should be excluded from the annual report
28 or that the expenses are inappropriate.

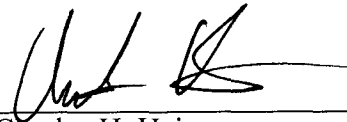
1 The third issue relates to what testimony constitutes substantial evidence to establish a
2 reasonable price for plant. On page 74 of the ROO beginning at line 25, the ROO states that there is
3 not sufficient evidence on the record to support the conclusion that \$15,000 is a reasonable price for
4 the used 8,000 gallon pressure tank. The ROO goes on to conclude that the evidence provided by
5 Ms. Olsen was not found to be credible. However, Staff provided its own evidence as to the
6 reasonableness of the cost and the appropriateness of financing the pressure tank (both its
7 construction and installation) through the testimony of Mr. Marlin Scott and through Mr. Scott's
8 engineering memorandum attached to Mr. Gerald Becker's Direct Testimony filed in this matter.
9 Likewise, the ROO notes that Mr. Scott testified that a new tank would be substantially more costly.

10 Staff's engineering testimony is frequently relied upon by the Commission to determine an
11 appropriate valuation of plant assets – often the Staff engineer is the only engineer presented by any
12 party in a rate proceeding and the only witness able to provide an opinion on the valuation of plant
13 facilities, estimated installation costs and estimated pro-forma operating expenses. This is
14 particularly the case in circumstances where the passage of time makes locating invoices
15 impracticable and a reconstruction cost new less depreciation study must be performed to determine
16 an approximate value for the utility's plant. It is also present in other circumstances where
17 professional judgment must be utilized to estimate plant values such as in new Certificate of
18 Convenience and Necessity applications and financing applications where the amounts have not been
19 incurred yet and there is no historical operational data. Consequently, the ROO's conclusion that
20 there is not sufficient evidence as to the value of the tank, nor enough evidence for Staff's
21 recommendation regarding the estimated cost for installing the tank, is concerning to Staff as the
22 evidence provided was substantially within the norm. To the extent that the threshold for engineering
23 testimony to be found sufficient has increased, Staff requests guidance so as to appropriately respond
24 to the needs of the Commission.

25 The fourth issue relates to a discussion on page 101 of the ROO beginning at line 11
26 regarding the operating revenues available to the Company. The ROO cites to the schedules of Staff
27 witness Becker for the proposition that "these figures suggest that Montezuma would still be able to
28 break even with the debt from the two leases, even if its rates were not increased to cover them."

1 Staff notes that the numbers cited from the Staff schedules are not Staff adjusted numbers. The
2 referenced numbers are from the Company's amended application and were presented within the
3 Staff schedules for comparative purposes to contrast with the Staff adjusted numbers. Rather, Staff's
4 numbers presented within the cited schedules indicate that the Company cannot support the debt from
5 the two leases without a rate increase.

6 RESPECTFULLY SUBMITTED this 4th day of April 2014.

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16 Original and thirteen (13) copies
17 of the foregoing filed this
18 4th day of April 2014, with:

19 Docket Control
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23 Copy of the foregoing EMAILED this
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